

Memorandum

DATE: February 18, 2010

REPLY TO

ATTN TO: IG-34 (A08FN004 and A07FN004)

SUBJECT: Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2008 and 2007 Financial Statement Audit - Report No.: OAS-FS-10-05

TO: Assistant Secretary for Environmental Management, EM-1
Deputy Assistant Secretary for Program Planning and Budget, Environmental Management, EM-30

The attached report presents the results of the independent certified public accountants' audit of the United States Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund's (D&D Fund) Fiscal Year (FY) 2008 and 2007 balance sheets and the related statements of net cost, changes in net position, and budgetary resources.

Pursuant to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General (OIG) engaged the independent public accounting firm of KPMG LLP (KPMG) to perform an audit of the D&D Fund FY 2008 and 2007 financial statements. KPMG is responsible for expressing an opinion on the D&D Fund's financial statements and reporting on applicable internal controls and compliance with laws and regulations. The OIG monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards. The OIG did not express an independent opinion on the D&D Fund's financial statements.

KPMG concluded that the financial statements present fairly, in all material respects, the financial position of the D&D Fund as of September 30, 2008 and 2007, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with U.S. generally accepted accounting principles.

The auditors' review of the D&D Fund's internal controls over financial reporting disclosed one significant deficiency. The significant deficiency is listed below.

- Unclassified network and information systems security - Network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems continue to exist. While progress has been achieved, continued focus is needed to resolve the weaknesses.

The Department concurs with the recommendations with the recognition that the Department's Chief Information Officer is the lead office in affecting changes on the Department's information systems.

There was one instance of noncompliance required to be reported under *Government Auditing Standards* or Office of Management and Budget Bulletin No. 07-04, as amended and is described below.

- Shortfall of Government Appropriations - Government appropriations received by the D&D Fund were below the funding required by the Energy Policy Act for the D&D Fund's first 16 years.

Management concurs with the recommendation that the Department initiate action to resolve funding shortfalls in the D&D Fund. This finding was reported in prior years.

Daniel M. Weeber

Daniel M. Weeber, Director
Environment, Technology, Corporate, and
Financial Audits Division
Office of Inspector General

Attachment

cc w/attachment:

Chief Financial Officer, CF-1

Director, Office of Financial Control and Reporting, CF-12

Director, Energy Finance and Accounting Service Center, CF-11

Team Leader, Audit Liaison, Office of Risk Management, CF-1.2

Audit Liaison, OR

Audit Liaison, PPPO

Audit Liaison, Environmental Management, EM-33

D. Williams, Office of Risk Management, CF-1.2



**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
URANIUM ENRICHMENT DECONTAMINATION AND
DECOMMISSIONING FUND**

Financial Statements

September 30, 2008 and 2007

(With Independent Auditors' Reports Thereon)

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
URANIUM ENRICHMENT DECONTAMINATION AND
DECOMMISSIONING FUND**

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**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
URANIUM ENRICHMENT DECONTAMINATION AND
DECOMMISSIONING FUND**

Overview

September 30, 2008

The Energy Policy Act of 1992 (Energy Policy Act) established the United States (U.S.) Department of Energy's (Department) Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund) to pay for the costs of decontaminating and decommissioning three gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. The Energy Policy Act also authorized the D&D Fund to pay remedial action costs associated with the U.S. Government (Government) operation of the Diffusion Facilities to the extent funds are available and to reimburse uranium and thorium licensees for the costs of decontaminating, decommissioning, reclamation, and other remedial actions, which are incident to sales to the Government.

The Energy Policy Act, as amended, authorizes the collection of revenues for 15 years to pay for the environmental remediation costs. The revenue is to be derived from domestic utility assessments and Government appropriations and is to be adjusted annually for increases in the Consumer Price Index for All Urban Consumers (Consumer Price Index).

The Energy Policy Act, as amended, specifies revenues as follows: \$480.0 million for the period from Fiscal Year (FY) 1992 to FY 1998; \$488.3 million for the period from FY 1999 to FY 2001; and \$518.2 million for FY 2002 through FY 2007. The revenues are to be obtained from:

- An assessment on domestic utilities up to \$150 million annually based on the ratio of their purchases of separative work units to the total purchases from the Department including those for defense; and
- Government appropriations for the difference between the authorized funding required by the Energy Policy Act and the utility assessment. Government contributions to the Fund were scheduled to end with the FY 2007 contribution. However, Government appropriations and resulting Government contributions through September 30, 2007 were approximately \$918.6 million less than authorized by the Energy Policy Act. The ability of the D&D Fund to fulfill its responsibilities is contingent upon the receipt of these contributions. The Fund received additional appropriations of \$458.8 million in FY 2008, which reduced the overall shortfall to approximately \$477.9 million as of September 30, 2008. The Department will continue to ask Congress for annual Government contributions until the Government's obligation has been met.

The Energy Policy Act provided that balances in the D&D Fund be invested in Treasury securities and any interest earned would be available to pay the costs of environmental remediation.

The Office of Environmental Management (EM) within the Department is responsible for oversight of the resources of the D&D Fund and environmental remediation activities at the Diffusion Facilities. The Diffusion Facilities have approximately 40 million square feet of floor space under 500 acres of roof containing processing and handling equipment, which will be remediated under the D&D Fund. The Oak Ridge Office, Oak Ridge, Tennessee, and the Portsmouth/Paducah Project Office, Lexington, Kentucky provide day-to-day management of D&D Fund activities. Budgeting, accounting, contracting, and other activities are supported through matrix organizations in the Department.

The Office of Disposal Operations (EM-12) is responsible for managing the Title X Uranium/Thorium Reimbursement Program. The Albuquerque Operations Office is responsible for evaluating claims submitted by

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the uranium and thorium licensees and making reimbursement recommendations to EM-12. The Defense Contract Audit Agency provides support for financial audits of the claims.

The Department is currently unable to estimate the impact of certain factors on the recorded liabilities and the receipt of Government appropriations by the D&D Fund. More specifically, the following are significant uncertainties impacting the D&D Fund:

- Because the decontamination and decommissioning work is scheduled to be completed in approximately 2016 at the gaseous diffusion facility located in Oak Ridge and the work has yet to be scheduled at the Paducah and Portsmouth gaseous diffusion facilities, the length of time over which the work will be performed creates significant uncertainty as to the actual cost of the work. In addition, because the estimates on which the recorded decontamination and decommissioning and remedial action liabilities are based do not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liabilities. There is also uncertainty with respect to whether Congressional appropriations will be received at the levels assumed by the estimates, and there is uncertainty inherent in the estimating process.
- The Energy Policy Act provides that the annual cost of remedial action at the Diffusion Facilities will be paid from the D&D Fund to the extent the amount available in the D&D Fund is sufficient. To the extent the amount in the D&D Fund is insufficient to pay remedial action costs, the Energy Policy Act provides that the Department will be responsible for such costs. The majority of current collections in the D&D Fund are being used to pay for remedial action costs at the Diffusion Facilities. The use of the D&D Fund for remedial action activities will impact the availability of funds to accomplish decontamination and decommissioning.
- Government appropriations and resulting Government contributions through September 30, 2008 were approximately \$477.9 million less than authorized by the Energy Policy Act. The ability of the D&D Fund to fulfill its responsibilities is contingent upon the receipt of these contributions. The Department has asked Congress to extend the authorization for Government contributions for three more years to allow the Government more time to meet its obligations to the D&D Fund.

Program Performance Measures

The program performance measures are the current metric for evaluating progress in EM. Under these program performance measures, environmental restoration progress is measured as the number of "release sites" completed and the number of "facilities" decommissioned.

A "release site" is defined as a unique location where a hazardous, radioactive, or mixed waste release has occurred or is suspected to have occurred. It is usually associated with an area where wastes or substances contaminated with wastes have been disposed of, treated, stored, and/or used. A "facility" is generally defined as a uniquely identifiable building or structure. Sometimes a facility is a room or part of a building or structure.

A release site is completed or a facility decommissioned when the documentation supporting a "no action" decision or the completion of physical cleanup has been submitted to regulatory authorities.

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The following summarizes the performance measures for D&D Fund projects in FY 2008:

	<u>Planned</u>	<u>Completed</u>
Release site completion	2	6
Facility completion	5	7

The Oak Ridge gaseous diffusion facility completed four release sites, which exceeded the zero release sites planned. This acceleration is a result of early completions to ensure work flow occurred in the most efficient manner according to current work plans. Oak Ridge also completed five facilities, which was more than the two facilities planned. Accelerations were possible to ensure work flow occurred in the most efficient manner and due to a transfer of a building to the City of Oak Ridge for their use. Portsmouth planned and performed two facility completions in FY 2008. Portsmouth had no release site completions planned. Paducah had one facility completion planned but it was not completed due to regulatory delays. Paducah planned and performed two release site completions.

The following summarizes the performance measures for D&D Fund projects in FY 2007:

	<u>Planned</u>	<u>Completed</u>
Release site completion	22	24
Facility completion	72	49

The Oak Ridge gaseous diffusion facility completed 19 release sites, which exceeded the 17 release sites planned. This acceleration is a result of early completions to ensure work flow occurred in the most efficient manner according to current work plans. Oak Ridge also completed 46 facilities, which was significantly less than the 72 facilities planned. Delays in completing facilities were due to having to replan the work because of funding constraints. Portsmouth had no facility completions or release site completions planned for FY 2007, but two facility completions were performed. Paducah had no facility completions planned, but one facility completion was performed. In addition, Paducah planned and performed five release site completions.

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Financial Performance Measures

The Department is required to collect assessments through FY 2007 from utilities and payments from other appropriations, invest excess cash, and make disbursements from the D&D Fund in accordance with the requirements of the Energy Policy Act. Two financial performance measures are used to assess performance: (1) the amount of interest earnings lost as a result of untimely remittance of assessments by utilities; and (2) excessive uninvested daily cash balances.

- **Timeliness of Receipts**

The final assessments were collected in FY 2007 and no late fee assessments were required.

- **Uninvested Daily Cash Balances**

There were no instances of excessive uninvested daily cash balances during both FY 2008 and FY 2007.

During FYs 2008 and 2007, the D&D Fund earned approximately 4.11% and 3.95%, respectively, from investments in Treasury securities.

Financial Statement Limitations

The accompanying financial statements were prepared to report the financial position and results of operations of the D&D Fund pursuant to the requirement of the Energy Policy Act.

While the statements have been prepared from the books and records of the D&D Fund in accordance with accounting principles generally accepted in the United States of America, the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they relate to the D&D Fund owned and managed by the Government, a sovereign entity; that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of appropriations; and that the payment of all liabilities, other than those resulting from contractual obligations, can be abrogated by the Government.

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Overview

September 30, 2008

Analysis of Systems, Controls, and Legal Compliance

Analysis of systems, controls, and legal compliance is performed, reported, and audited at the Departmental level. The results of these reviews and assessments are incorporated in the Department's Agency Financial Report. A legal noncompliance, Shortfall of Government Appropriations, was reported by management in FY 2007 and FY 2008 and is described below.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires that agencies establish internal control and financial systems to provide reasonable assurances that the integrity of Federal programs and operations are protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist.

In response to the FMFIA, the Department developed an internal control program that holds managers accountable for the performance, productivity, operations, and integrity of their programs through the use of management controls. Annually, senior managers at the Department are responsible for evaluating the adequacy of the internal controls surrounding their activities and determining whether they conform to the principles and standards established by the Office of Management and Budget, and the Government Accountability Office. The results of these evaluations and other senior management information are used to determine whether there are any internal control problems to be reported as material weaknesses. The Departmental Internal Control and Audit Review Council, the organization responsible for oversight of the Management Control Program, makes the final assessment and decision for the Department.

Legal Noncompliance – Shortfall of Government Appropriations

The Energy Policy Act of 1992 requires Government appropriations to the D&D Fund each fiscal year through FY 2007. However, Government appropriations and resulting Government contributions through September 30, 2007 were approximately \$918.6 million less than authorized by the Energy Policy Act. The ability of the D&D Fund to fulfill its responsibilities is contingent upon the receipt of these contributions. The Fund received additional appropriations of \$458.8 million in FY 2008, which reduced the \$918.6 million shortfall (after adjustments for inflation) to approximately \$477.9 million. The Department will continue to ask Congress for annual Government contributions until the Government's obligation has been met.



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Independent Auditors' Report

Office of Inspector General and Office of Environmental Management
United States Department of Energy:

We have audited the accompanying balance sheets of the Decontamination and Decommissioning Fund (D&D Fund) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, and budgetary resources, (hereinafter referred to as financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2008 and 2007 audits, we also considered the D&D Fund's internal controls over financial reporting and tested the D&D Fund's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the D&D Fund's financial statements as of and for the years ended September 30, 2008 and 2007 are presented fairly, in all material respects, in conformity with United States (U.S.) generally accepted accounting principles.

Our consideration of internal control over financial reporting for fiscal years 2008 and 2007 resulted in one matter, related to unclassified network and information systems security, being identified as a significant deficiency. However, this significant deficiency is not considered to be a material weakness.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts for fiscal years 2008 and 2007 disclosed one instance of noncompliance with the Energy Policy Act of 1992 that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on the D&D Fund's financial statements; our consideration of the D&D Fund's internal control over financial reporting, our tests of the D&D Fund's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the D&D Fund as of September 30, 2008 and 2007 and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the D&D Fund as of September 30, 2008 and 2007, and its net costs, changes in net position, budgetary resources and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 4 to the financial statements, the D&D Fund has recorded a liability of approximately \$14,485.6 million and \$14,344.5 million at September 30, 2008 and 2007, respectively, to decontaminate and decommission the gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. However, the Department of Energy (Department) is presently unable to determine the impact of time and inflation on the liability for decontamination and decommissioning costs. Because the decontamination and decommissioning work is scheduled to be completed in fiscal year 2016 at the gaseous diffusion facility located in Oak Ridge and the work has yet to be scheduled at the Paducah and Portsmouth gaseous diffusion facilities, the length of time over which the work will be performed and the uncertainty inherent in the estimating process create significant uncertainty as to the actual cost of the work. In addition, because the estimate on which the recorded liability is based does not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liability.

As discussed in note 6 to the financial statements, the Energy Policy Act of 1992 (Energy Policy Act) provides for payment from the D&D Fund of the annual cost of remedial action at the Diffusion Facilities to the extent the amount available in the D&D Fund is sufficient. To the extent the amount available in the D&D Fund is insufficient to pay remedial action costs, the Energy Policy Act provides that the Department, not the D&D Fund, will be responsible for such costs. Because the Department may be responsible for remedial action costs, the D&D Fund's recorded liability for remedial action at September 30, 2008 consists of the funding for such costs provided by Congress in the D&D Fund appropriation for Fiscal Year (FY) 2009, \$53.3 million, plus the unexpended portion of such appropriations for current and previous fiscal years, \$177.8 million. The D&D Fund's recorded liability for remedial action at September 30, 2007 consists of the funding for such costs provided by Congress in the D&D Fund appropriation for FY 2008, \$53.6 million, plus the unexpended portion of such appropriations for current and previous fiscal years, \$222.1 million. The D&D Fund will make additional accruals of remedial action costs if Congress appropriates additional funds for that purpose. The estimated future cost of remedial action at the Diffusion Facilities, which is only recorded in the accompanying financial statements to the extent described above, is approximately \$2,515 million and \$2,165 million as of September 30, 2008 and 2007, respectively. The remaining liability for the estimated future cost of remedial action at the Diffusion Facilities is recorded by the Department. The estimate includes surveillance and maintenance, infrastructure, site operation, and support costs, but does not include an estimate of the impact of inflation on the cost of the work; therefore, the actual cost may be significantly higher than the estimate. There is also uncertainty with respect to whether Congressional appropriations will be received at the level assumed by the estimate, and there is uncertainty inherent in the estimating process. The Department is presently unable to determine the impact of these factors on the estimated remedial action costs.

As discussed in note 9 to the financial statements, the D&D Fund changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in FY 2007.

The information in the Overview and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we express no opinion on it.

Internal Control over Financial Reporting

Our consideration of the internal control over financial reporting for fiscal years 2008 and 2007 was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the D&D Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the D&D Fund's financial statements that is more than inconsequential will not be prevented or detected by the D&D Fund's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the D&D Fund's internal control.

In our fiscal year 2008 and 2007 audits, we noted the following matter, described in more detail in Exhibit I, involving internal control over financial reporting that we consider to be a significant deficiency. However, we do not believe this significant deficiency is a material weakness.

- **Unclassified network and information systems security** – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. The identified weaknesses and vulnerabilities increased the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.

Exhibit II presents the status of prior year significant deficiencies.

Compliance and Other Matters

The results of certain test of compliance for fiscal years 2008 and 2007 as described in the Responsibilities section of this report, exclusive of those referred to in *Federal Financial Management Improvement Act* (FFMIA), disclosed no instances of other matters and disclosed one instance of noncompliance with the Energy Policy Act of 1992 that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended, and is described below and in more detail in Exhibit III.

Shortfall of Government Appropriations – The Energy Policy Act of 1992 requires the Government to provide appropriations to the D&D Fund each fiscal year through 2009. As of September 30, 2008 and 2007, Government appropriations received by the D&D Fund are approximately \$477.9 million and \$918.5 million, respectively, below the required funding.

Exhibit IV presents the status of prior year noncompliance.

* * * * *

Responsibilities

Management's Responsibilities: Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to the D&D Fund.

Auditors' Responsibilities: Our responsibility is to express an opinion on the fiscal years 2008 and 2007 financial statements of the D&D Fund based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the D&D Fund's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal years 2008 and 2007 audits, we considered the D&D Fund's internal control over financial reporting by obtaining an understanding of the D&D Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audits was not to provide an opinion on the D&D Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the D&D Fund's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the D&D Fund's fiscal years 2008 and 2007 financial statements are free of material misstatement, we performed tests of the D&D Fund's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the D&D Fund. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit, and accordingly, we do not express such an opinion.

The D&D Fund's response to the findings identified in our audit are presented in Exhibits I and III. We did not audit the D&D Fund's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the D&D Fund's management, the D&D Fund's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 22, 2009

**Independent Auditors' Report
Exhibit I – Significant Deficiency**

Unclassified Network and Information Systems Security

The Department of Energy (Department) maintains a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to improve network security at the sites whose controls we, and the Department's Office of Health, Safety, and Security (HSS), reviewed in prior years. However, we, and the HSS, continued to identify network security weaknesses at sites reviewed in fiscal years 2008 and 2007, and the frequency and severity of those weaknesses remained consistent with our prior year findings. The Department recognizes these weaknesses and has classified cyber security as a significant issue in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal years 2008 and 2007. Significant improvements are still needed in the areas of password management configuration management and restriction of network services.

Our fiscal years 2008 and 2007 audits also disclosed weaknesses in access controls at several sites, similar to our prior year findings. Specifically, we noted weaknesses in the review and approval of user access privileges, password security, and monitoring of networks for questionable activity. We also noted weaknesses in the cyber security programs at certain locations in which Federal cyber security requirements and Departmental policies and controls were not properly implemented. Further, the Department's Office of Inspector General also reported deficiencies in the Department's network and information system risk management, configuration management, and access controls in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated September 2008 and 2007. Matters discussed in that report included an examination of nonfinancial systems.

The Department has acknowledged the need to improve its information systems security and other information technology controls. In fiscal years 2008 and 2007, the Department's Chief Information Officer (CIO) continued to implement a revitalization plan designed to improve the management of its information security program and issued enhanced cyber security guidance to strengthen controls and reduce network vulnerabilities. The Cyber Security Revitalization Plan is a collaborative effort between the Office of the CIO (OCIO), the Under Secretaries and other senior management to identify and resolve cyber security problems, provide site assistance, and follow-up on corrective actions. Once fully implemented, these initiatives and new policies and procedures should strengthen the Department's overall cyber security program.

The identified weaknesses and network vulnerabilities and access controls increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. Because of our concerns, we performed supplemental procedures and identified compensating controls that mitigate the potential effect of these security weaknesses on the integrity of the Department's financial systems.

Recommendation

Because the D&D Fund does not have the ability to affect changes on the Department's network security, no further action is needed by the D&D Fund other than to monitor the progress of the CIO. While progress has been achieved, continued focus is needed to resolve the vulnerability and access control weaknesses described above. Therefore, we recommended in the Department's Independent Auditors Report dated November 10, 2008 that the Department's program officials, in conjunction with the CIO, fully implement policies and procedures to ensure that the Federal information security standards are met and that networks and information systems are adequately protected against unauthorized access.

Management Response

Management concurs with the recommendation as presented, with the recognition that the Department's CIO is the lead office in affecting change on the Department's information systems.

Independent Auditors' Report
Exhibit II – Status of Prior Year Finding

Reportable condition from fiscal year 2006 (with parenthetical disclosure of year first reported)	Status at September 30, 2008 and 2007
Unclassified Information System Security (2001)	Again reported in Exhibit I as a significant deficiency for fiscal years 2008 and 2007

Independent Auditors' Report
Exhibit III – Noncompliance with Laws, Regulations, and Contracts

Shortfall of Government Appropriations

We noted a shortfall of Government appropriations to the Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund).

Finding

In our report on compliance with laws, regulations, and contracts for the year ended September 30, 1994 (1994 report), we reported that the Energy Policy Act of 1992 (Energy Policy Act) requires that deposits into the D&D Fund will total \$480.0 million each fiscal year through 2007, adjusted annually for inflation using the Consumer Price Index for All Urban Consumers, as published by the Department of Labor. The Energy Policy Act provides that up to \$150.0 million of annual deposits, adjusted annually for inflation, shall be collected from domestic utilities, with the remaining portion of the \$480.0 million to come from Government appropriations. The annual deposit of \$480.0 million remained unchanged until Fiscal Year (FY) 1999 when authorized funding was increased to \$488.3 million. Legislation enacted during FY 2002 increased authorized funding to \$518.2 million per year.

The following is a summary of authorized funding required from Government appropriations but not received by the D&D Fund as of September 30, 2008 and 2007 (in millions):

	<u>Authorized funding required from Government appropriations</u>	<u>Government appropriations received</u>	<u>Authorized funding not received</u>
Year ended September 30:			
1993	\$ 331.4	—	331.4
1994	342.8	197.2	145.6
1995	348.2	133.7	214.5
1996	357.3	350.0	7.3
1997	367.6	386.6	(19.0)
1998	375.8	398.0	(22.2)
1999	391.4	398.1	(6.7)
2000	400.3	420.0	(19.7)
2001	414.0	419.1	(5.1)
2002	462.7	420.0	42.7
2003	471.0	432.7	38.3
2004	481.2	449.3	31.9
2005	493.9	459.3	34.6
2006	511.9	446.5	65.4
2007	531.5	452.0	79.5
	<u>6,281.0</u>	<u>5,362.5</u>	<u>918.5</u>
2008	<u>18.2</u>	<u>458.8</u>	<u>(440.6)</u>
	<u>\$ 6,299.2</u>	<u>5,821.3</u>	<u>477.9</u>

Exhibit III

The table above indicates that Government appropriations received by the D&D Fund are \$477.9 million below the \$6,299.2 million funding required by the Energy Policy Act as of September 30, 2008 and \$918.5 million below the \$6,281.0 million funding required as of September 30, 2007.

Our 1994 and subsequent reports recommended the Department of Energy (Department) consider requesting a supplemental appropriation, including inflation adjustments, to make up the cumulative shortfall in appropriations to the D&D Fund.

In July 2004, the Government Accountability Office (GAO) issued a report (GAO-04-692) to congressional committees entitled *Uranium Enrichment Decontamination and Decommissioning Fund Is Insufficient to Cover Cleanup Costs*. In this investigation, the GAO concluded that the D&D Fund is insufficient to cover cleanup costs at the three facilities located in Oak Ridge, Paducah, and Portsmouth. The GAO recommends that Congress consider reauthorizing the D&D Fund for three additional years (through 2010) and require the Department to reassess the D&D Fund's sufficiency before it expires to determine if further extensions will be necessary.

Recommendation

We recommend that the Department initiate action to resolve funding shortfalls in the D&D Fund.

Management Response

Management concurs with the recommendation and will continue to request appropriations needed to make up the Government's shortfall in contributions to the D&D Fund. Even in the absence of authorizing legislation, appropriations for contributions to the D&D Fund can be counted against the shortfall and made available to the D&D Fund due to the self-authorizing nature of the appropriations bills.

Independent Auditors' Report
Exhibit IV – Status of Prior Year Noncompliance

Noncompliance from fiscal year 2006 (with parenthetical disclosure of year first reported)	Status at September 30, 2008 and 2007
Shortfall of Government Appropriations (1994)	Again reported in Exhibit III as a noncompliance for fiscal years 2008 and 2007

**UNITED STATES DEPARTMENT OF ENERGY
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Balance Sheets

September 30, 2008 and 2007

(In thousands)

Assets	2008	2007
Entity assets:		
Intragovernmental:		
Fund balance with treasury	\$ 4,414	1,497
Investments, net	4,768,691	4,673,021
Accrued interest receivable	53,774	54,170
Total entity assets	<u>\$ 4,826,879</u>	<u>4,728,688</u>
Liabilities and Net Position		
Liabilities covered by budgetary resources:		
Decontamination and decommissioning	\$ 159,794	61,934
Remedial action	53,339	53,599
Accounts payable and other accruals	46,429	52,351
DOE interfund accounts payable	5,088	10,054
Total funded liabilities	<u>264,650</u>	<u>177,938</u>
Liabilities not covered by budgetary resources:		
Decontamination and decommissioning	14,325,835	14,282,591
Uranium and thorium licensee claims	253,421	266,927
Remedial action	177,805	222,106
Total unfunded liabilities	<u>14,757,061</u>	<u>14,771,624</u>
Total liabilities	15,021,711	14,949,562
Net position:		
Cumulative results of operations	<u>(10,194,832)</u>	<u>(10,220,874)</u>
Total liabilities and net position	<u>\$ 4,826,879</u>	<u>4,728,688</u>

See accompanying notes to financial statements.

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Statements of Net Cost

Years ended September 30, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Environmental quality program costs:		
Decontamination and decommissioning	\$ 445,349	436,689
Storage and disposition	57,370	48,108
Uranium and thorium licensee claims	19,842	19,675
Postclosure liability administration	<u>17,511</u>	<u>17,503</u>
Net program costs	540,072	521,975
Cost applied to the reduction of legacy liabilities	(510,004)	(502,406)
Costs not assigned	610,207	4,826,460
Exchange revenues	<u>(197,073)</u>	<u>(182,801)</u>
Net cost of operations	<u>\$ 443,202</u>	<u>4,663,228</u>

See accompanying notes to financial statements.

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Statements of Changes in Net Position
Years ended September 30, 2008 and 2007
(In thousands)

	<u>2008</u>	<u>2007</u>
Cumulative results of operations:		
Beginning balance	\$ (10,220,874)	(6,023,059)
Other financing sources:		
Imputed financing from costs absorbed by others	10,458	13,413
Other appropriations transferred from DOE, net of adjustments	458,786	452,000
Total financing sources	<u>469,244</u>	<u>465,413</u>
Net cost of operations	<u>(443,202)</u>	<u>(4,663,228)</u>
Ending balance	<u>\$ (10,194,832)</u>	<u>(10,220,874)</u>

See accompanying notes to financial statements.

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Statements of Budgetary Resources

Years ended September 30, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Budgetary resources:		
Unobligated balance brought forward, October 1	\$ 646	234
Budget authority, appropriation	627,876	556,606
Temporarily not available pursuant to public law	(5,714)	—
Total budgetary resources	\$ 622,808	556,840
Status of budgetary resources:		
Obligations incurred – direct	\$ 620,311	556,194
Unobligated balance available	2,497	646
Total status of budgetary resources	\$ 622,808	556,840
Change in obligated balance:		
Unpaid obligations, brought forward, October 1	\$ 189,262	136,545
Obligations incurred	620,311	556,194
Less gross outlays	(557,669)	(503,477)
Unpaid obligations, net, end of period	\$ 251,904	189,262
Outlays:		
Gross outlays	\$ 557,669	503,477
Less distributed offsetting receipts	(650,614)	(648,053)
Net outlays	\$ (92,945)	(144,576)

See accompanying notes to financial statements.

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September 30, 2008

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Energy Policy Act of 1992 (Energy Policy Act) requires the United States (U.S.) Department of Energy (Department) to retain responsibility for the costs of environmental remediation resulting from the U.S. Government's (Government) operation of the three gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio prior to that date.

The Energy Policy Act established the Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund) within the Department as of October 24, 1992 to pay for the costs of decontaminating and decommissioning the Diffusion Facilities (note 4). The Energy Policy Act further provides that the D&D Fund will reimburse licensees operating uranium or thorium processing sites for the costs of environmental remediation at those sites, subject to maximum reimbursement limits (note 5). The Energy Policy Act, as amended, also provides for payment of the costs of remedial action at the Diffusion Facilities, to the extent that the amount available in the D&D Fund is sufficient (note 6). To pay for these activities, the Energy Policy Act and subsequent legislation authorize funding over a 15-year period, adjusted annually using the Consumer Price Index for All Urban Consumers (Consumer Price Index), as published by the Department of Labor, over a 15-year period. The funding is to be obtained from Government appropriations (note 7) and from assessments receivable from domestic utilities (note 3).

(b) Basis of Presentation

These financial statements have been prepared from the accounting records of the D&D Fund in conformance with accounting principles generally accepted in the United States of America.

The Department's expenses are summarized in its statement of net cost by business line. The Environmental Quality business line includes, among other activities, all D&D Fund expenses. The purpose of environmental quality activities is to understand and reduce environmental, safety, and health risks and threats and to develop the technologies and institutions required for solving domestic and global environmental problems.

The Department's headquarters, field offices, and the management and integrating (M&I) contractor (at Oak Ridge) conducting environmental remediation activities at the Department's facilities discussed in note (1)(a) record D&D Fund activity in their accounting systems. The M&I contractor integrates its accounting system with the Department through the use of reciprocal accounts. The M&I contractor is required to comply with Departmental accounting practices and procedures, which provide for the unique identification of D&D Fund transactions. These financial statements are prepared by extracting and adjusting D&D Fund-related data from the financial records of the Department and the M&I contractor.

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(c) *Basis of Accounting*

The D&D Fund's financial statements are prepared using the accrual method of accounting. The accrual method of accounting requires recognition of the financial effects of transactions, events, and circumstances in the periods when those transactions, events, and circumstances occur, regardless of when cash is received or paid. The D&D Fund also uses budgetary accounting to facilitate compliance with legal constraints and to monitor its budget authority at the various stages of execution, including allotment, obligation, and eventual outlay.

(d) *Earmarked Funds*

The D&D Fund has adopted Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, which requires separate identification of earmarked funds on the Balance Sheets, Statements of Changes in Net Position, and in the notes. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues. All of the assets, liabilities, net position, and activity within these D&D fund financial statements are a single earmarked fund.

(e) *Fund Balance with Treasury*

Funds with the Department of the Treasury (Treasury) primarily represent funds left uninvested on the last day of the fiscal year (September 30) to cover any unanticipated disbursements that occur after the September 30 overnight investment has been made with Treasury. This approach helps the D&D Fund avoid ending the fiscal year with a negative cash balance due to unanticipated disbursements.

(f) *Investments*

The Energy Policy Act requires the D&D Fund to invest in U.S. Treasury obligations. The D&D Fund's investments in Treasury securities are classified as held-to-maturity. Held-to-maturity securities are those securities that the D&D Fund has the ability and intent to hold until maturity. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective-interest method. Realized gains and losses for securities classified as held-to-maturity are included in earnings and are derived using the specific-identification method for determining the cost of securities sold.

(g) *Plant and Equipment*

Plant and equipment acquired by the D&D Fund are charged to operations when purchased, unless the plant or equipment will be used for purposes other than environmental remediation. All plant and equipment held by the D&D Fund at September 30, 2008 and 2007 are used in environmental remediation.

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(h) Environmental Remediation Liabilities

The D&D Fund's environmental remediation liabilities are recorded at current cost, which is the amount that would be paid if all equipment, facilities, and services included in the related cost estimates were acquired during the current period. Each fiscal year, the liabilities are increased for inflation, reduced by current expenditures, and adjusted for estimated cost increases or decreases.

(i) Revenue Recognition

Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Increases in current and future assessments due to changes in the Consumer Price Index are recognized in each fiscal year as such changes occur.

(j) Government Appropriations

Government appropriations are recognized at the later of the beginning of each fiscal year, when appropriations may be apportioned to the Department by the Office of Management and Budget (OMB), or the date the appropriations legislation is signed into law.

(k) Imputed Costs and Financing Sources

Certain salaries, employee benefits, and other costs allocable to the D&D Fund are funded under separate appropriations, and are included in the accompanying financial statements through allocations by entities outside the D&D Fund in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts for the Federal Government*. An equivalent amount is included in imputed financing.

(l) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Tax Status

The D&D Fund, as a Federal entity, is not subject to Federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded in the accompanying financial statements.

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(2) Investments, Net

The D&D Fund invests in nonmarketable market-based U.S. Treasury securities. All U.S. Treasury securities held at September 30, 2008 and 2007 are classified as held-to-maturity. The components of U.S. Treasury securities held as of September 30, 2008 and 2007 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Face value	\$ 4,710,157	4,623,227
Unamortized premiums	70,679	69,120
Unamortized discounts	<u>(12,145)</u>	<u>(19,326)</u>
	4,768,691	4,673,021
Unrealized gains	<u>182,305</u>	<u>21,316</u>
Total	<u>\$ 4,950,996</u>	<u>4,694,337</u>

The market value of U.S. Treasury securities held as of September 30, 2008 and 2007 is as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Maturity:		
Maturing within 1 year	\$ 783,527	770,026
Maturing after 1 year through 5 years	4,068,050	3,671,109
Maturing after 5 years through 10 years	<u>99,419</u>	<u>253,202</u>
Total	<u>\$ 4,950,996</u>	<u>4,694,337</u>

During Fiscal Years (FYs) 2008 and 2007, the D&D Fund recognized interest revenue of \$197.1 and \$182.8 million, respectively.

The Federal Government does not set aside assets to pay for expenditures associated with the funds for which the Department holds Treasury securities. These Treasury securities are an asset to the Department and a liability to Treasury. Because the Department and Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government wide financial statements.

Treasury securities provide the Department with authority to draw upon the U.S. Treasury to make expenditures, subject to available appropriations and OMB apportionments. When the Department requires redemptions of these securities, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way the Government finances all other expenditures.

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(3) Assessments Receivable from Domestic Utilities

The Energy Policy Act authorized assessments by the D&D Fund against domestic utilities who purchased uranium enrichment services from the Department and its predecessor agencies prior to the Energy Policy Act. The assessments are based on the ratio of such services purchased by domestic utilities to total services provided to domestic and foreign utilities and to the Government. Collections of the assessments were limited to \$150 million each year (indexed for inflation), for 15 years (FY 1993 through FY 2007). The final assessments were collected in FY 2007. The entire amount of assessments over the 15-year assessment period authorized by the Energy Policy Act was recorded as revenue by the D&D Fund during FY 1993, as no future services were associated with these assessments. Assessments were adjusted annually for inflation using the Consumer Price Index.

(4) Decontamination and Decommissioning

The Department's estimate of the costs to decontaminate and decommission the Diffusion Facilities is based on an aggressive contracting strategy intended to maximize cost savings and enhance scheduling through the use of performance-based contracts. Environmental remediation, which includes both decontamination and decommissioning and remedial action (note 6) activities, will be completed through fixed-price contracts where appropriate.

Changes in the liability for decontamination and decommissioning from October 1, 2006 through September 30, 2008 are summarized as follows (in thousands):

Balance, October 1, 2006	\$ 10,060,329
Provision for inflation	175,789
Decontamination and decommissioning costs incurred	(312,360)
Adjustment to new cost estimate	<u>4,420,767</u>
Balance, September 30, 2007	14,344,525
Provision for inflation	328,490
Decontamination and decommissioning costs incurred	(392,784)
Adjustment to new cost estimate	<u>205,398</u>
Balance, September 30, 2008	<u>\$ 14,485,629</u>

Of the total liability of \$14,485.6 million for decontamination and decommissioning as of September 30, 2008, \$159.8 million is covered by appropriations for current and previous fiscal years (budgetary resources) and \$14,325.8 million is not covered by budgetary resources. Of the total liability of \$14,344.5 million for decontamination and decommissioning as of September 30, 2007, \$61.9 million is covered by appropriations for current and previous fiscal years (budgetary resources) and \$14,282.6 million is not covered by budgetary resources.

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Because the decontamination and decommissioning work is scheduled to be completed in approximately 2016 at the gaseous diffusion facility located in Oak Ridge and the work has yet to be scheduled at the Paducah and Portsmouth gaseous diffusion facilities, the length of time over which the work will be performed and the uncertainty inherent in the estimating process create significant uncertainty as to the actual cost of the work. In addition, because the estimate on which the recorded liability is based does not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liability. The Department is presently unable to determine the impact of time and inflation on the liability for decontamination and decommissioning costs.

(5) Uranium and Thorium Licensee Claims

The Energy Policy Act, as amended, provides that the D&D Fund will reimburse licensees operating uranium or thorium processing sites for the costs of environmental remediation at those sites, subject to maximum reimbursements of \$350 million for the uranium licensees and \$365 million for the thorium licensee, plus adjustments for inflation. Legislation enacted during FY 2002 increased the maximum reimbursement for the thorium licensee from \$140 million to \$365 million.

As of September 30, 2008 and 2007, the Department has approved for payment \$615.0 million and \$590.1 million, respectively, of uranium and thorium licensee claims, and has paid \$573.4 million and \$553.8 million, respectively, to licensees. Approved but unpaid claims will be paid to licensees when additional funds are appropriated for that purpose. The Department receives additional claims from licensees as remediation occurs, and expects that total reimbursements of uranium and thorium licensee claims will reach the limits set by legislation.

The D&D Fund's liability for reimbursement of uranium and thorium licensee claims consists of the maximum reimbursements authorized by legislation less amounts paid, adjusted annually for inflation. Changes in the liability for reimbursement of uranium and thorium licensee claims from October 1, 2006 through September 30, 2008 are summarized as follows (in thousands):

Balance, October 1, 2006	\$ 280,359
Provision for inflation	6,168
Claims reimbursed	<u>(19,600)</u>
Balance, September 30, 2007	266,927
Provision for inflation	6,112
Claims reimbursed	<u>(19,618)</u>
Balance, September 30, 2008	\$ <u>253,421</u>

No portion of the liability of \$253.4 million and \$266.9 million for uranium and thorium licensee claims as of September 30, 2008 and 2007, respectively, is covered by budgetary resources.

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(6) Remedial Action

The Energy Policy Act provides that the annual cost of remedial action at the Diffusion Facilities will be paid from the D&D Fund to the extent the amount available in the D&D Fund is sufficient. To the extent the amount in the D&D Fund is insufficient to pay remedial action costs, the Energy Policy Act provides that the Department will be responsible for such costs.

Because the Energy Policy Act places primary responsibility for remedial action costs with the Department if sufficient resources are not available in the D&D Fund, the D&D Fund's recorded liability for remedial action at the end of each fiscal year includes only the funding for such costs provided by Congress in the D&D Fund appropriation for the succeeding fiscal year, plus the unexpended portion of such appropriations for current and previous fiscal years. The D&D Fund will make additional accruals of remedial action costs if Congress appropriates funds for that purpose.

Changes in the liability for remedial action from October 1, 2006 through September 30, 2008 are summarized as follows (in thousands):

Balance, October 1, 2006	\$ 244,110
Provision for inflation and remedial action costs	210,436
Remedial action costs incurred	<u>(178,841)</u>
Balance, September 30, 2007	275,705
Provision for inflation and remedial action costs	141,877
Remedial action costs incurred	<u>(186,438)</u>
Balance, September 30, 2008	\$ <u>231,144</u>

Of the total liability of \$231.1 million for remedial action as of September 30, 2008, \$53.3 million is covered by budgetary resources and \$177.8 million is not covered by budgetary resources. Of the total liability of \$275.7 million for remedial action as of September 30, 2007, \$53.6 million is covered by budgetary resources and \$222.1 million is not covered by budgetary resources.

The estimated future cost of remedial action at the Diffusion Facilities, which is only recorded in the accompanying financial statements to the extent described above, is approximately \$2,515 million and \$2,165 million as of September 30, 2008 and 2007, respectively. The remaining liability for the estimated future cost of remedial action at the Diffusion Facilities is recorded by the Department. The estimate includes surveillance and maintenance, infrastructure, site operation, and support costs, but does not include an estimate of the impact of inflation on the cost of the work; therefore, the actual cost may be significantly higher than the estimate. There is also uncertainty with respect to whether Congressional appropriations will be received at the level assumed by the estimate, and the uncertainty inherent in the estimating process. The Department is presently unable to determine the impact of these factors on the estimated remedial action costs.

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(7) Government Appropriations

The Energy Policy Act and subsequent amendments require annual Government appropriations to the D&D Fund through FY 2007, equal to the difference between authorized funding, adjusted annually for inflation using the Consumer Price Index, and the assessment against domestic utilities (note 3). Authorized funding was initially established at \$480.0 million per year by the Energy Policy Act. That amount remained unchanged until FY 1999 when legislation increased authorized funding to \$488.3 million per year. Legislation enacted during FY 2002 increased authorized funding to \$518.2 million per year.

The ability of the D&D Fund to fulfill its responsibilities is contingent upon receipt of funds from these sources. The D&D Fund received payments of \$480.0 million for FY 2007 from Defense Environmental Restoration and Waste Management. This was the final Government payment authorized by the legislation discussed above. Subsequently, budget rescissions reduced the D&D Fund payments to \$452.0 million in FY 2007. Cumulative Government appropriations received of \$5,362.4 million have been less than the full amount authorized by the Energy Policy Act of \$6,281.0 million, resulting in funding authorized but not received of \$918.6 million as of September 30, 2007. In July 2006, the Department submitted a request to Congress to extend the window for Government contributions by three years to allow the Government more time to meet its obligations to the D&D Fund. For FY 2008, Congress appropriated \$463.0 million to the D&D Fund; however, a budget rescission reduced the payment to \$458.8 million. The shortfall in Government appropriations, after adjustment for inflation, is \$477.9 million as of September 30, 2008.

(8) Pension and Postretirement Benefit Liabilities

The D&D Fund's primary integrated contractor maintains a defined benefit pension plan and is a party to two defined benefit postretirement (PRB) plans, under which they promise to pay participants specified benefits, such as a percentage of the final average pay for each year of service, or a percentage of actual medical expenses in retirement. The D&D Fund follows multi-employer accounting for these plans in accordance with Statement of Financial Accounting Standards (SFAS) No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. The D&D Fund is required to reimburse the contractor for its share of the annual contractor contributions to those plans based on planned funding between the Department of Defense Funds and the D&D Fund as determined by the Department's budget planning assumptions. Payment of such amounts is included as program cost on the Statements of Net Cost. For the years ended September 30, 2008 and 2007, the D&D Fund provided funding for approximately \$4.0 million and \$4.3 million to the contractor's defined benefit pension plan, and \$11.1 million and \$12.4 million related to PRB plans, respectively.

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(9) Reconciliation of Net Cost of Operations to Budget

In accordance with Revised OMB Circular No. 136, *Financial Reporting Requirements*, dated June 29, 2007, the Statement of Financing is presented as a footnote disclosure and is no longer a basic financial statement, as has been presented in prior years. The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and nonbudgetary resources available to the reporting entity with its net cost of operations.

	<u>2008</u>	<u>2007</u>
Resources used to finance activities:		
Obligations incurred	\$ 620,311	556,194
Less offsetting receipts	(650,614)	(648,053)
Net obligations	(30,303)	(91,859)
Imputed financing from costs absorbed by others	10,458	13,413
Other – appropriations transferred from DOE	458,786	452,000
Total resources used to finance activities	438,941	373,554
Resources used to finance items not part of the net cost of operations:		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	(73,531)	(26,027)
Resources that finance the acquisition of assets	(6,708)	(8,282)
Resources that fund expenses recognized in prior periods	(508,093)	(502,589)
Other resources and adjustments	(7,512)	(6,708)
Total resources used to finance items not part of the net cost of operations	(595,844)	(543,606)
Net cost of items that do not require or generate resources in current period:		
Increase in unfunded liability estimates	597,837	4,813,230
Amortization of premiums and discounts on treasury investments	1,100	1,967
Other	1,168	18,083
Total net cost of items that do not require or generate resources in current period	600,105	4,833,280
Net cost of operations	\$ 443,202	4,663,228

REQUIRED SUPPLEMENTARY INFORMATION

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Required Supplementary Information

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Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and which, therefore, is put off or delayed to a future period. The United States Department of Energy (Department) has developed an estimate for deferred maintenance in the amount of \$49.6 million and \$16.3 million as of September 30, 2008 and 2007, respectively, for the structures and facilities at the gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio, and has determined that there is no deferred maintenance with respect to capital equipment at the Diffusion Facilities.

The Department developed its deferred maintenance estimate for buildings and other structures and facilities using the condition assessment survey (periodic inspections) method, except for some structures and facilities, such as underground pipe systems, where physical barriers prevent inspection. In such cases, a deferred maintenance estimate was developed for deficiencies identified during normal operations but not corrected when scheduled. Where complete condition assessments were not available for all assets, estimates were extrapolated from results of condition assessments performed for similar assets. Where appropriate, results from previous condition assessments were adjusted to estimate current conditions. Deferred maintenance for excess property, including structures and facilities awaiting decontamination and decommissioning, was reported only where maintenance is needed for worker and public health and safety concerns. In accordance with standards identified by the *National Association of College and University Business Officers*, the Department has designated the acceptable operating condition standard as a Facility Condition Index of less than or equal to 5%.